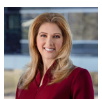
CROSSMARK
GLOBAL INVESTMENTS

QUARTERLY UPDATE: 3Q 2021

TAXABLE FIXED INCOME COMMENTARY

Core Fixed Income, Corporate Fixed Income, Current Income Portfolio, Intermediate Fixed Income and Income Opportunities are separately managed account investment strategies



written by
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Markets and Performance

The first quarter brought inflation fears, with 10-year Treasury yields moving to a 2021 high of around 1.75%. As investors acclimated to the Fed's story of inflation being transitory, yields began to move lower. This continued into the third quarter, with yields dropping to a low of 1.13% in early August. Inflation, along with the anticipation of Fed balance sheet tapering, brought concerns once again as supply chain issues were not diminishing as quickly as expected. Some of the wage and input costs proved to be more permanent than initially thought. The quarter ended with 10-year Treasury yields at 1.53% and trending higher, benefiting our Strategies as we incorporate shorter portfolio durations to reduce volatility associated with interest rate risk. The Crossmark taxable fixed income model portfolios continued to outperform their respective Indexes year-to-date but performed in-line or underperformed for the quarter. September was a strong month (relative to the Indexes) for all model portfolios, but not strong enough to completely counteract the lower yields at the beginning of the quarter.

Positive and Negative Contributors to Performance

The two largest positive contributors to performance for all taxable fixed income model portfolios were the duration and income effects. As mentioned, as yields move higher, the shorter duration positioning of the Strategies works as a positive contributor to model performance (compared to the Indexes). Our Treasury allocation had a much shorter duration than that of the Indexes, resulting in the largest positive contributor to performance. Our overweight to the corporate allocation, along with the addition of fixed-rate preferreds in some of the Strategies, allows a higher level of income generation for the model portfolios (compared to the Indexes) while boosting the income component into one of the largest positive contributors to total return. The negative contributors to performance were the allocation and yield curve effects. During the quarter, the shape of the yield curve shifted, with the steepest part in the 2-year to 5-year area. We focused purchases on the longer end of the curve to help extend duration as yields moved towards the upper band levels.

Looking Ahead

With yields trending up, the shorter duration positioning of the Strategies should be a benefit to model performance versus the comparable Indexes in the final quarter of 2021. Typically, October is a volatile month, but it is followed by tailwinds pushing markets higher into the end of the year. With COVID cases and hospitalizations beginning to fall compared to the surge seen just a month ago, we should start seeing more people returning to work and conducting more "normal" activities. This would be a positive for sentiment and growth, which would help move yields back towards the 1.75% level. In that type of environment, the Crossmark taxable fixed income Strategies are well-positioned, with lower-interest-rate risk than the broader market and a focus on investment-grade securities.

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